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On June 13, 2005, the Seattle Monorail Project (SMP) sent an e-mail “update” providing the following details (*in italics*) of the three public meetings it has scheduled for comments on the yet to be disclosed contract with the Cascadia Monorail Company and an explanation of why project costs have increased more than 20% since 2002. OnTrack comments appear in **bold**.

### **Upcoming Public Hearings Schedule**

*“The dates for the Joint Contracts and Design Public Hearings will be July 5th, 6th and 7th.”*

**The public hearings are scheduled for the three days immediately following the July 4<sup>th</sup> holiday – days frequently tacked on to the holiday to extend a vacation. Whether intentional or not, the Agency would be hard pressed to schedule hearings better calculated to lessen public attendance and involvement.**

**The public is being asked to comment on a complex, technical contract, hundreds if not thousands of pages long, which the SMP took nine months to negotiate in private with the assistance of teams of lawyers and consultants, a mere 14 days after it will be available to the public.**

**Given the post-vacation scheduling, the shortness of lead time, and the complexity of the anticipated contract, it is difficult, if not impossible, for concerned citizens and community and civic groups to meaningfully analyze the contract, for groups to hold meetings with their members to ensure they understand the terms and implications of the contract, and for all to thereafter convey comments to the SMP Board.**

**Further, the SMP finance plan will not be discussed in public until July 30, leaving only four days before the first public hearing – three of which comprise the July 4<sup>th</sup> weekend. The SMP’s plan to finance the Green Line (which has elicited skepticism from the State Treasurer and Auditor, the media, OnTrack, and members of the public) and how much that financial plan will cost cannot and should not be separated from the contract. Whether or not there are sufficient funds to build the Green Line should have direct bearing on the SMP’s Board’s decision to enter into the contract. Yet the public will have virtually no time to review the financing plan.**

**If the SMP is serious about soliciting public input with respect to the contract and financing plan, at a minimum, it must:**

- **provide a detailed schedule of all risks shifted from the contractor to the SMP in the course of contract negotiations;**
- **provide an analysis of every contract provision that is different from the RFP, indicating the exact changes, the reasons for each change, and the cost differences that result; and**
- **reschedule the public hearings to allow the public at least four weeks to analyze both the contract and the financing plan and make comments.**

**To proceed with the rushed schedule proposed by SMP undermines the Agency's stated goals of transparency and honoring its grassroots heritage.**

### **The Board's Role and Decision Timeline**

*"After holding the Joint Public Hearings and analyzing the contracts, the Board will determine if it is in the public's interest to enter into the contracts negotiated between SMP and Cascadia Monorail Company. This is really an up or down decision. If the Board accepts these contracts, the design and construction of the Monorail Green Line will proceed according to those agreements. However, if the Board rejects the contracts, they may send SMP staff back to the negotiating table or enter into a new procurement process."*

**At the June 7 Public Involvement Committee meeting, SMP Board chair Tom Weeks gave every indication that the Board would vote on the contract in the week of July 11. Since the deadline for comments is the end of the day on July 11, Board members will have little to no opportunity to review comments submitted towards the end of the process, which likely will be the most thorough and well thought out.**

**The current schedule eliminates meaningful Board consideration of public comments, as well as vital media scrutiny and public debate of issues raised in the comments. If the Board adopts Tom Weeks' time-line and votes before it, and the public, have had time to fully review both the contract and the financing plan, it may well approve a contract without knowing if the project is financially viable.**

### **SMP 2005 Estimated Project Costs Compared to 2002 ETC Estimates**

*"In 2002, the ETC estimated total costs of the Project to be approximately \$1.75 billion.... and borrowing would be limited to no more than \$1.5 billion in 2002 dollars. The current cost estimate is still within those funding limits."*

**According to statements Joel Horn made to the *Seattle Times*, the SMP plans to defer interest payments in the early years of the project. Interest earned on that deferred interest will significantly increase the cost of financing the project. Additionally, the SMP currently plans to pay back part of the principal on bonds**

**and then reissue additional bonds – effectively treating the voter mandated “cap” not as a cap but rather as the upper limit on a revolving line of credit. While the outstanding principal may never exceed the voter-mandated cap of \$1.5 billion (in 2002 dollars), the total amount borrowed and the total cost of the project will exceed estimates by a wide margin. It is precisely these numbers that must be submitted to meaningful public scrutiny and testing.**

### **“Downtown Turnback”**

*“The current SMP cost estimate now includes....a ‘downtown turnback’ developed since 2002, the system has the ability to run trains twice as often through the core of Downtown between Seattle Center and King Street Station.”*

**Unlike Metro and Sound Transit buses in downtown, the Green Line’s “downtown turnback” will not be free. It is highly improbable that revenues from the “downtown turnback” will justify the construction costs of adding this element. The questionable assumption that people will pay to ride the monorail within downtown rather than ride a free bus must be subjected to rigorous modeling and public discussion before moving ahead on this element of the Green Line.**

### **Costs**

*“**Construction Costs and Inflation:** SMP staff has negotiated a fixed-price contract of slightly over \$1.6 billion in year of expenditure dollars. This includes all of the major elements of the system including trains, stations, water crossings, guideway, operations center, etc.”*

**The SMP often repeats that once a contract is entered all risk will be shifted to the contractor and the public can take comfort in knowing the project will be completed. This claim is not true.**

**It is critical to account for the substantial project costs and risks not assumed by the contractor, costs that will increase with time. The SMP is now responsible for significant items that were originally to be part of the contract, including utility relocation, as well as costs associated with litigation, mitigation, and environmental hazard removal. We will have a better sense of the extent to which risk has been shifted from the contractor to SMP when we see the full contract.**

### **Cost Increases**

*“The ETC estimate for [building the Green Line], adjusting upwards for inflation during the construction period, was approximately \$1.45 billion. There are two key reasons for the additional cost of the construction. First, construction costs have increased faster than was anticipated in 2002....Second, ETC did not and could not have anticipated the impacts of world events on the insurance and bonding costs for the taxpayer protections required for this Project.”*

**Changes in the bond and insurance marketplace arose as a result of the aftermath of the attacks on the World Trade Center on September 11, 2001. The ETC had almost a full year to gauge changes in these markets while it was preparing its plan.**

### **Contingencies and Reserves**

*“SMP’s estimates include allowance and reserve funds for construction of more than \$200 million in 2005 dollars, this amount equals \$285 million in year of expenditure dollars....Of the \$285 million, we have identified approximately \$130 million that are for specific purposes and must be assumed will be spent. The remaining \$155 million is for contingencies.”*

**Responsibly managed projects establish a contingency fund to meet *inevitable* cost overruns. Planners generally expect that these funds will be spent. Typically, major projects budget 10% of the value of the contract for contingencies. In this case, that would require a \$160 million contingency fund.**

**Additionally, the SMP is responsible for a minimum of \$500 million in project costs beyond the contract cost. Accordingly, the contingency fund should be increased by at least \$50 million and total \$210 million. The current fund is \$55 million short, adding to the risk that there are insufficient funds to complete the project.**

**Responsibly managed projects provide for reserves to meet *unanticipated* expenses over and above cost overruns. The SMP plan does not provide for any reserves. Should contingencies be exceeded, as is likely the case with the current plan for the Green Line, then reserves are vital to ensure the project will be completed. The SMP has provided no money for reserves, further highlighting the financial risks facing the project.**

### **Land Acquisition**

*The SMP will spend “approximately \$100 million in year of expenditure dollars” for land acquisition. “The ETC estimate for land acquisition was approximately \$35 million in year of expenditure dollars.” Increased land purchases were necessary “so that Green Line stations can be situated beside streets instead of over them, fitting better into the communities that they serve.”*

**The 2002 ETC plan stated that “Stations might be constructed alongside of or adjacent to the public right-of way to minimize impacts” (page 34). ETC plans assumed that stations would be built out of the right-of-way and statements during the 2002 campaign indicated that stations would be put in existing buildings or in new buildings. The ETC estimate of the cost of land acquisition was off by 200%.**

**Massive elements of the Green Line will hang over streets: switches, 35-foot wide concrete platforms, some as long as 500 feet, will effectively lid streets below them. These switches were not in the ETC plan and are necessary because of the SMP’s**

**cost-cutting decision to make some of the line single-beam (rather than dual-beam) and to accommodate the “downtown turnback.”**

### **Pre-Construction Costs**

*“Project Planning and Community Involvement Costs in 2003-2004: SMP spent approximately \$90 million in 2003 and 2004 to prepare the Request for Proposal and all of its Technical Requirements. This included community outreach efforts, technical studies (geo-tech, environmental, noise calculations, etc.) along the Green Line route as well as the preparation, publication, and legal defense of the Environmental Impact Study. This also included the work with the City of Seattle to obtain the Route and Alignment Approval and the Transit Way Agreement. The ETC estimate for this work was approximately \$30 million.”*

**A well planned project would have anticipated most if not all of these costs, directly or through provisions for contingencies. Additionally, some of the expenditures are questionable, including \$2.3 million to design stations that will never be built and a \$2.6 million advertising campaign, abruptly terminated after public outcry in May 2004. It is precisely because of past planning errors such as these that future plans must be reviewed carefully, in detail and not in haste.**

### **Agency Costs**

*“Construction Oversight and Agency Costs: SMP’s estimates include approximately \$100 million in 2005 dollars for construction oversight and quality control, public art and on-going agency costs. Included in the on-going agency costs are expenses related to transit integration and completion of 2nd Phase planning. This amount equals approximately \$135 million in year of expenditure dollars. The ETC estimate for these activities was closer to \$45 million. We estimate that we will spend \$90 million in year of expenditure dollars over the ETC estimate.”*

**Both the \$6 million for public art and the \$6 million for 2<sup>nd</sup> phase planning are anticipated costs and they lower the budget for oversight and quality control to roughly \$120 million.**

**In the past two and a half years, the Agency has spent roughly \$110 million (excluding land purchases). Given this history, it is unlikely and the SMP will spend only \$120 million on oversight, quality control, and on-going agency costs in the next five years of construction.**

### **Start-Up Subsidies Prior to 2020**

*“SMP’s estimates include approximately \$50 million in 2005 dollars for start-up subsidies to run the system in its first ten years of operation.... The ETC estimate for these start-up operating subsidies was approximately \$25 million. SMP is estimating higher start-up subsidies for two reasons. First, the same increase in insurance and*

*bonding costs discussed in Construction Costs above, and second, because the negotiated agreement has strong performance guarantees after the system is carrying passengers.”*

**Doubling the operating subsidy likely has more to do with changes to the proposed Green Line that result in decreased ridership and fare-box revenues than with insurance, bonding, and performance guarantees. Rather than 19 stations, the Green Line will have 16 stations. Among those stations “deferred” is the 2<sup>nd</sup> and Madison station, which was to have the fourth highest ridership and serve the downtown business core and the ferry system. Additionally, the frequency of service has been cut in half, from trains running every four minutes at peak times to every eight minutes at peak. Combined, these two reductions in service could result in a 40% or greater decrease in projected ridership and fare-box revenues. Before moving ahead, updated ridership and revenues studies must be completed and subjected to public review.**

**On top of the decline in fare revenue, the SMP will also collect less for advertising because open-air stations will have limited opportunities to hang signs and advertisements and fewer trains and fewer passengers means fewer people will see advertisements, meaning the SMP will have to charge less for advertising.**

**The increased operating subsidy—which will all go to the contractor—reflects the decline in Green Line service, ridership, and revenues and further demonstrates the impossibility that the Green Line will be self-supporting by 2020. In 2020, if not before, it is inevitable that additional sources of revenue will need to be identified to subsidize Green Line operations – a responsibly planned monorail, and a responsible SMP Board, would identify sources of funds before moving ahead.**

### **Conclusion**

**The SMP’s revenues are 30% below ETC projections, project costs are currently 18-28% over budget, and the SMP has spent \$170 million to date – 10% of the total ETC budget for the project. The nine months spent negotiating with Cascadia resulted in a contract that is \$150 million over budget and eliminates promised features, including three stations, station amenities, roughly half the trains, and cuts service by half.**

**The SMP Board has a fiduciary duty to protect the public and undertake a thorough and public evaluation of the contract and the financing plan to ensure there are sufficient funds to build the Green Line before it signs a contract for the largest project in Seattle history.**

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**As the SMP issues its periodic updates in the coming months, OnTrack will continue to respond to clarify issues and highlight areas of the project needing public attention and scrutiny.**